

# Board of Education Agenda Item

Item: M.

Date: January 15, 2009

**Topic:** Report on Governor's Proposed Amendments to the 2008-2010 Biennial Budget (HB1600/SB 850)

**Presenter:** Mr. Kent C. Dickey, Assistant Superintendent for Finance

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## Origin:

☒ Topic presented for information only (no board action required)

☐ Board review required by

☐ State or federal law or regulation

☐ Board of Education regulation

☐ Other: \_\_\_\_\_

☐ Action requested at this meeting ☐ Action requested at future meeting: \_\_\_\_\_

## Previous Review/Action:

☐ No previous board review/action

☒ Previous review/action

date March 19, 2008

action The Board received a report on the 2008-2010 biennial budget for public education approved by the 2008 General Assembly.

## Background Information:

The Direct Aid to Public Education budget for the 2008-2010 biennium enacted at the 2008 General Assembly session included \$961.0 million in additional state funding (over the final FY08 budget) for SOQ rebenchmarking and other programs. Since last spring, state revenues have slowed significantly due to national economic conditions, and the Governor's revised revenue forecast for 2008-2010 reduces general fund revenues by \$2.9 billion compared to the budget adopted last year. Consequently, the Governor's amended 2008-2010 budget released in December (HB1600/SB850) includes spending reductions to state agencies and programs, including Direct Aid to Public Education.

The 2008-2010 budgets for the Department of Education Central Office and the Virginia School for the Deaf and the Blind at Staunton were also reduced based on the October and December reduction plans approved by the Governor. Governor Kaine's amended 2008-2010 budget will be considered by the 2009 General Assembly.

## **Summary of Major Elements:**

On December 17, 2008, Governor Kaine presented his proposed amendments to the 2008-2010 biennial budget to the General Assembly. The Governor's proposed amendments to the Direct Aid to Public Education budget include standard technical updates to funding formulas, targeted reductions, and a funding loss cap payment.

Key amendments proposed by the Governor to the 2008-2010 Direct Aid budget include:

- technical updates for enrollment, program participation, and other factors
- adjustments to sales tax and Lottery revenue estimates
- correction for the special education child count in FY10
- use of Literary Funds for VRS retirement
- adjustments to certain fringe benefit rates
- elimination of the FY10 teacher salary increase
- targeted reductions in FY10 (funding cap for support positions, eliminate Lottery funding for school construction, eliminate school construction grants, other)
- providing a one-time Funding Loss Cap payment in FY10 of \$60.9 million

No targeted or policy-based reductions to Direct Aid are proposed for FY09, only routine technical updates to enrollment and other factors. The targeted reductions are proposed for FY10 only.

The Governor also proposes various budget language changes to provide flexibility for school divisions and to implement the Board's proposals for flexibility in the use of state funding and local match for data coordinators, English language learner teachers, and reading and mathematics specialists.

## **Superintendent's Recommendation:**

The Superintendent of Public Instruction recommends that the Board of Education accept this informational report.

## **Impact on Resources:**

The Governor's proposed amendments to the 2008-2010 Direct Aid budget reduce state funding by \$96.1 million in FY09 and by \$602.6 million in FY10 compared to the current 2008-2010 budget (Chapter 879) passed at the 2008 session. The reductions are due to both routine technical updates (e.g., enrollment) to formulas and targeted reductions.

Based on the year-to-year change in the Governor's introduced budget, state funding distributions to school divisions would decrease by \$375.0 million (six percent overall) from FY09 to FY10 due to the proposed FY10 reductions.

## **Timetable for Further Review/Action:**

None.

# ***Overview of Governor's Amendments to the 2008-2010 Direct Aid to Public Education Budget***

**Presentation to the Board of Education**

Kent C. Dickey  
Assistant Superintendent for Finance  
January 14, 2009



# Overview

- Governor Kaine presented his amendments to the current 2008-2010 budget to the General Assembly money committees on December 17th.
- 2009 General Assembly will act on Governor's amended 2008-2010 budget (HB1600/SB850 as introduced).
- Governor's amended budget is based on a \$2.9 billion reduction in total GF revenues compared to the current biennial budget (Chapter 879).
- Includes technical updates and policy changes to public education funding (Direct Aid to Public Education) and language provisions to provide flexibility.

# ***Revised State Revenues***

- Revised GF revenue forecast in the introduced budget is \$2.9 billion less for the 2008-2010 biennium.
- Direct Aid funding represents approximately 34% of the state GF budget.
- Governor's October Reduction Plan focused on FY09 shortfall to avoid targeted Direct Aid reductions in the current year.
- No targeted reductions to Direct Aid funding in FY09, only technical adjustments. Targeted reductions in FY10 only.

# ***Overall Direct Aid Impact***

- Compared to the current budget (Chp. 879), Direct Aid state funding (GF & NGF) is reduced by \$96.1 million in FY09 and \$602.6 million in FY10.
- FY09 funding change due to technical updates to formulas only (revised enrollment, etc.) – no policy changes.
- Division funding projected to decrease by \$375.0 million (or 6%) from FY09 to FY10 due to proposed policy changes in FY10.

# ***Technical Updates to Direct Aid***

- FY09 & FY10 funding impacted by routine technical updates to accounts:
  - *reforecast of enrollments: Fall Membership, ADM, and ESL students*
  - *sales tax and Lottery revenue reforecasts*
  - *2008 Triennial Census count (for sales tax distribution)*
  - *program participation data*
  - *Special Education Child Count correction (FY10)*

# ***Technical Updates to Direct Aid***

- ADM projections reduced 4,700 students in FY09 and 4,200 students in FY10 from current budget (.25% & .68% annual growth).
- Sales tax estimate (1.125%) reduced by \$68.5 million for FY09 and by \$80.1 million for FY10.
  - *Net reduction in division funding with Basic Aid off-set is \$30.0 million in FY09 and \$35.0 million in FY10.*
- Lottery revenue estimate reduced \$30.5 million for FY09 and \$30.8 million for FY10.
- Special Education Child Count corrected for FY10 (\$6.8 million increase FY10).



# ***Technical Updates to Direct Aid***

- Update for 2008 Triennial Census (\$4.6 million increase FY10).
  - *effect of redistribution of sales tax and cost of Basic Aid off-set.*
- SOQ account updates - mainly ADM (\$33.8 million reduction FY09; \$45.7 million reduction FY10).
- Update categorical and incentive programs (\$1.9 million reduction FY09; \$1.8 million reduction FY10).
- Increase use of Literary Funds for VRS retirement by \$54.4 million over the biennium.
  - *fund source change only; does not change division funding*
  - *revised LF forecast assumes no direct loans remainder of 08-10 and removal of \$20 million subsidy program in FY10.*

# ***FY10 Targeted Reductions***

- Establish a funding cap for certain Basic Aid support positions (\$340.9 million reduction FY10).
  - no standards exist for these positions - currently funded based on prevailing costs
  - establishes a funding cap based on a ratio of one support position per 4.03 instructional positions
  - one to 4.03 ratio based on a 3-yr. linear weighted average of actual support to instructional position ratios calculated from division Annual School Report data
  - one to 4.03 ratio is applied to the 75.39 per 1,000 funded SOQ instructional positions to derive the 18.71 per 1,000 support positions funded for FY10
  - funding cap excludes these support positions: division supts., school boards, school nurses, and pupil transportation
  - change reflected as a reduction in the Basic Aid per pupil amount for each division
  - does not mandate reductions in this area

# ***FY10 Targeted Reductions***

- Eliminate funding for the School Construction Grants Program (\$27.5 million reduction FY10).
- Eliminate use of Lottery funds for school construction grants and reassign GF programs to Lottery funds (\$55.8 million reduction FY10)
  - *Reassigns these accounts to Lottery funding: Alternative Education, ISAEP, Project Graduation, Education for a Lifetime/NCLB, Special Education Regional Tuition, and Vocational Education Categorical*
  - *Transfer from Lottery to GF: Remedial Summer School and Enrollment Loss*

# ***FY10 Funding Loss Cap***

- Provide a one-time Funding Loss Cap payment in FY10 to limit divisions' projected state funding loss next year to \$403.90 per pupil based on three targeted reductions:
  - *1) support position funding cap; 2) School Construction Grants Program elimination; 3) moving \$55.8 million in GF accounts to Lottery*
  - *uses remaining Lottery funds previously distributed on a per pupil basis to provide a \$60.9 million one-time payment in FY10; no local match required*

# ***FY10 Additional Reductions***

- Eliminate Compensation Supplement (\$71.6 million reduction FY10)
  - *eliminates the planned 2% salary increase for SOQ funded instructional and support staff*
- Reduce employer contribution rates for Group Life (0.33% to 0.27%) and Retiree Health Care Credit (1.08% to 1.04%) only based on changes in actuarial assumptions (\$2.7 million reduction FY10).

# ***FY10 Additional Reductions***

- Reduction to State-operated Programs (SOP) account for planned state facility closures (\$1.9 million reduction FY10)
  - *planned facility closures of adolescent unit at Southwestern Mental Health Institute in Smyth Co. and the Commonwealth Center of Children and Adolescents in Staunton allows SOP account to be reduced. The education services at these state facilities are provided by the local divisions with state SOP funds.*
- Reductions to supplemental education assistance programs (\$404,130 reduction FY10)
  - *across the board reductions to several supplemental education assistance programs (e.g., CTE Resource Center, Jobs for Va. Graduates, etc.)*

# ***Proposed Budget Language***

- **Allow unspent FY09 state funds to be carried over to FY10**
  - *Any locality that has met its FY09 required local effort for the SOQ or required local match for incentive, school construction, or Lottery-funded programs could carry over into FY10 any unspent state funds.*
- **Local distribution of remaining balance in the Lottery Proceeds Fund**
  - *Beginning in FY10, distribute to school divisions any balance remaining in the Lottery Proceeds Fund after all Lottery accounts for the year have been fully funded. Any distribution of funds would be based on the state share of the per pupil amount in adjusted March 31 ADM and the balance in the Lottery Proceeds Fund. The local governing body would be required to appropriate the funds for expenditures of the school division. A local match of funds would not be required to receive the state funds.*

# ***Proposed Budget Language***

- **Provide flexibility in using Lottery and School Construction escrow funds in FY10**
  - *Allow divisions to withdraw funds from local escrow accounts established pursuant to §22.1-100.1 (Lottery Proceeds Nonrecurring Costs Escrow Accounts) and §22.1-175.5 (Capital School Projects Fund) to pay for recurring operational expenses in FY10. Localities are not required to provide a local match.*



# ***Proposed Budget Language***

- Provide flexibility in using existing funds to employ data coordinators, reading specialists, mathematics teacher specialists, and English language learner teachers (Board of Education recommendation).
  - Use existing state/local funds for SOQ instructional technology resource teachers to employ data coordinators or instructional technology resource teachers
  - Use existing state/local Early Reading Intervention funds to employ reading specialists
  - Use existing state/local SOL Algebra Readiness funds to employ mathematics teacher specialists
  - Use existing state/local funds for SOQ Prevention, Intervention, and Remediation to employ additional English language learner teachers
- Divisions using funds in this manner would be required to employ instructional personnel licensed by the Board of Education.